

CARES Act – Traps and Provisions of PPP Loan Forgiveness

May 19, 2020



UNBRIDLED CAPITAL
FRANCHISE INVESTMENT BANKING



About Us



Rick Ormsby
Managing Director

Unbridled Capital

Rick Ormsby is Managing Director at Unbridled Capital. With over 15 years of experience in franchise investment banking, Mr. Ormsby has worked on hundreds of franchise M&A assignments representing several billion dollars in transaction value. His firm has developed a reputation for its specialized expertise and industry-leading 91.4% closing rate, representing franchisees and franchisors across the world's leading brands.



Derek Ball
Senior Vice President

Unbridled Capital

Since 2017, Derek has executed numerous transactions, totaling over \$1B in transaction value – and growing. While Derek is primarily tasked with seamlessly executing Unbridled's transactions, he also performs financial analysis, valuations, and provides debt and capital strategies to our clients. Furthermore, Derek has been instrumental in creating long-term, on-going relationships with growth-oriented franchisees.



Tim Ring
Shareholder

Monroe Moxness Berg PA

Tim brings sophisticated institutional-level experience to counseling clients in mergers and acquisitions, and financing transactions that include traditional secured lending, syndicated or participated loans, and structured finance in the mortgage industry. He has extensive experience in Mortgage Servicing Rights (MSR) trading and finance, and mortgage repurchase agreements. He has worked regularly on complex transactions ranging from \$100 million to \$1 billion.



Summary of Discussion

- 1** PPP Loan Purpose and Coverage
- 2** Maximizing Forgiveness
- 3** Forgiveness Calculation & Commentary
- 4** Economic Uncertainty Discussion
- 5** What Do You Do from Here?



PPP Loan Purpose

What is the Purpose of the PPP Loan?



To **RESTORE** Employment



To **RETAIN** Employment



PPP Loan Coverage

The Four Acceptable Uses for PPP Loan Proceeds



Payroll



Rent (contract in force before 2-15-20)



Utilities



Mortgage Interest (debt incurred before 2-15-20)



Maximizing Forgiveness

1 Calculate/project your expenses over 8-week forgiveness period

2 Consider additional hours/shifts for current employees

- a. Cleaning
- b. Speed of Service
- c. Maintenance

3 Bonuses/Allowances/Hazard Pay

4 Consider paying landlords even where there's been deferrals

5 Contractors vs. employees



Forgiveness Calculation – What to Include



Payroll Costs



Rent – real and personal property



Mortgage interest – real and personal property



Utilities



Loan Forgiveness - Payroll



75% of Loan Proceeds Must be Used for Payroll Costs

1

Loan amount is 2.5x payroll costs. Does not include cash compensation in excess of \$100,000 annually, subject to tax credit

2

Eligible forgiveness: costs incurred, and payments made for payroll costs, covered utilities, covered rent, and covered mortgage – accrual basis or cash basis issues under the CARES Act? SBA interim final rule does not fully track the CARES Act.

3

New 56-day payroll calculation and extended covered period



Loan Forgiveness – Payroll Cont'd

4

Loan forgiveness is reduced on a per-employee basis by any reduction in excess of 25% of such employee's total salary and wages during the three-month period preceding the PPP Loan, compared to the eight-week period following disbursement of the PPP Loan.

5

Loan forgiveness reduced as follows: PPP Loan amount times (a) average # of full-time equivalent employees employed during 8 weeks following disbursement of loan divided by average # of full-time equivalent employees employed from 2-15-20 through 6-30-20; **or** (b) average # of full-time equivalent employees employed during 8 weeks following loan disbursement divided by average # of full-time equivalent employees employed during the period from 1-1-20 through 2-29-20.



Loan Forgiveness - Mortgage Interest

1

Debt must be incurred before 2-15-20.

2

PPP Loan may be used for interest on a mortgage obligation and on any other debt obligation incurred before 2-15-20, but forgiveness is limited to interest on a covered mortgage, which means a mortgage on real or personal property – What does that mean? What about interest payments on other debt that is allowed under CARES Act?



PPP Loan Forgiveness— Important to Mention



Borrowers must certify that PPP Loan request is necessary. This means current economic uncertainty makes loan necessary to support ongoing operations.



Borrower must spend PPP Loan proceeds on an allowed use prior to June 30, 2020 – state closure laws?



Loan *forgiveness requires* Borrower to spend PPP Loan proceeds within 8 weeks of receiving loan proceeds – How would a business benefit from forgiveness when it's required to be closed under state law?



Forgiveness may not exceed principal balance, but SBA interim final rule [April 15th] states that accrued interest is forgivable.



Economic Uncertainty

1

Loans below \$2MM (Safe Harbor)

- a. Your certification of economic uncertainty is automatically considered to be made in good faith
- b. Why? Less likely you have adequate sources elsewhere to seek funds

2

Loan Above \$2MM? SBA will review loans with more scrutiny.

- a. Was amount accurate?
- b. Was forgiveness calculation accurate?
- c. Was loan necessary due to economic uncertainty?



Economic Uncertainty - Cont'd

3

Recommendation: Document economic uncertainty now.

- a. Need documentation that you were justified in taking the loan and continuing to use the loan.
- b. Sales uncertainty persists
- c. Employment uncertainty persists
- d. You don't need to deplete your bank accounts
- e. Remodels are just deferred for most brands, not abated
- f. Current strong sales could be mostly tied to stimulus and unemployment checks.



What Do You Do From Here?



Use a segregated account to track PPP funds and document expenditures



Do calculation now to determine forgiveness and staffing



Review what is included in payroll costs



Restore employment to take advantage of curing forgiveness deductions



Stay abreast of changes in legislation



Talk with an experienced advisor if you have questions



Questions/Commentary



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